

The City does not believe in funding small business. Th...

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These are two FT headlines from [one FT email this morning](#):

Financial reforms set to give £1.6bn boost to City of London

Government assessment comes as Rachel Reeves champions district as driver of economic growth

Bank lending to UK businesses falls to lowest level in nearly 30 years

Weak economic growth and tighter regulation hit credit for small and medium-sized companies

There has been nothing, and no one, let alone any regulation, that has prevented UK banks from lending to small businesses over the last 30 years. Any pretence to the contrary is just that: it is a pretence. As [I have already noted this morning](#), the FT is heavily into promoting neoliberal pretence today.

The truth is that the City, and its banks, have not lent to small businesses because they have been too lazy to do so. Lending to small businesses is hard work. It requires understanding. It requires relationships. It requires monitoring. It requires partnership. But, more than all of that, it requires a belief that creating value is more important than extracting value.

Let us be honest. Both the ability and willingness amongst banks to lend to small businesses do not exist because they do not meet the requirements I note to do so, and they do not believe it is important when rent extraction is, from their perspective, so much easier.

The question to ask in that case is why financial reforms that will release more City funds for lending for growth, when bank lending has not delivered that outcome for decades, while in the process increasing the risk to depositors and the government from bank failure.

The reality is that almost no banker at work in the UK now understands what a focus on smaller-business banking really means. They have not been around for long enough to

know.

Banks were never easy or reliable partners for small businesses, and I have dealt with many such relationships in my career. But once, those relationships were possible.

Now there is no desire for them on the part of our banks. The consequence is the starvation of the supply of capital to business in the UK, and the inevitable outcome is the fall in productivity that Martin Wolf is [claiming in the FT this morning](#) is actually the consequence of infantile politicians, when it is really the consequence of infantile bankers, and the infantile neoliberal dogma to which he and his newspaper subscribe.

So, what can be done about this?

My answer is precisely nothing at all until the government realises that the City is not a solution to any known problem within the UK economy. The City exists to extract value from the rest of us. It has precisely no interest in creating value, and that is as true of the banks as of the senior management of all our quoted companies.

In that case, the only solution is to bypass the City. We need to cut out the middleman in the market for supplying capital.

There are trillions of pounds available for investment in the UK. More than £700 billion is saved in ISAs, much of it in cash, and there is much more in pension funds, again with significant amounts of cash being held, [as I noted in an article on Substack yesterday](#).

The problem is not, then, that there is a shortage of funds in the UK economy. We do, in fact, have an excess, or glut, of savings that are serving no useful purpose.

What the government needs to do now is act as the intermediary for the supply of capital from savings through the creation of regional investment banks, funded by government-backed bonds, subject to a government guarantee, as deposits in banks already are, in which it should be required that new ISAs and some pension contributions should be saved.

If the government were willing to take on this role of intermediation, which banks have long abandoned, we would have the capital we need to transform our economy. By relying on the City, as Rachel Reeves and the FT think appropriate, we will just increase rent extraction, at cost to us all.

When is a grown-up politician going to make the right choice? Funding small businesses is the way to deliver local jobs, youth employment and real training in the UK. It answers all our needs in a way that big business can never do. But without capital, it cannot do that. When will the government realise that and take action, and stop pretending that the City will, which is never going to happen?